

Harper Creek Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2023

Independent Auditors' Report i - iii

Management's Discussion and Analysis iv-ix

Basic Financial Statements

District-Wide Financial Statements:

Statement of Net Position 1
Statement of Activities 2

Fund Financial Statements:

Governmental Funds:

Balance Sheet 3
Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to
Net Position of Governmental Activities on the Statement of Net Position 4
Statement of Revenues, Expenditures, and Changes in Fund Balances 5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities 6

Notes to Financial Statements 7-27

Required Supplementary Information

Budgetary Comparison Schedule - General Fund 28
Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan.. 29
Schedule of the District's Pension Contributions to the MPSERS Plan 30
Schedule of the District's Proportionate Share of the Net OPEB Liability of the MPSERS Plan 31
Schedule of the District's OPEB Contributions to the MPSERS Plan 32
Notes to Required Supplementary Information Pension and OPEB Schedules 33

Other Supplementary Information

Combining Balance Sheet – Nonmajor Governmental Funds 34
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances – Nonmajor Governmental Funds 35

Federal Awards Supplementary Information Issued Under
Separate Cover



WILLIS & JURASEK

CPAs AND CONSULTANTS

Independent Auditors' Report

Board of Education
Harper Creek Community Schools
Battle Creek, Michigan

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harper Creek Community Schools, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Harper Creek Community Schools, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Harper Creek Community Schools, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principles

As discussed in Note 12 to the financial statements, in 2023 the District adopted new accounting guidance, GASB Statement No. 96, *Subscription-Based IT Arrangements*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Harper Creek Community Schools' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Harper Creek Community Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Harper Creek Community Schools' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and certain pension and OPEB information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harper Creek Community Schools' basic financial statements. The combining nonmajor fund financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2023 (under separate cover), on our consideration of Harper Creek Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Harper Creek Community Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harper Creek Community Schools' internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 30, 2023

Harper Creek Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2023

As Administration of Harper Creek Community Schools, Calhoun County, State of Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2023.

Financial Highlights

- The District's total net position increased by \$2,374,223
- As of the close of the current fiscal year, the District's aggregated fund balance for the District's governmental funds was \$9,110,117.
- The General Fund had a net change in fund balance of \$487,596. At the end of the year, the total fund balance for the General Fund was \$5,610,183 or approximately 15% of the total General Fund expenditures.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District financially as a whole. The District-Wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements provide information about the School District's most significant fund – the General Fund, as well as totals for the District's other major and nonmajor funds.

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities – One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets, liabilities, deferred outflows, and deferred inflows of the District using the accrual basis of accounting, which is similar to the accounting used by private-sector corporations.

The statement of net position and statement of activities report the governmental activities for the District. These services include instruction, support services, community services, athletics, food services, student activities, and transfers to other local districts. Property taxes, intergovernmental revenues, (unrestricted and restricted State Aid), and charges for services finance most of these activities. All of the current year's revenues and expenses for these services are taken into consideration regardless of when cash is received or paid.

The statement of net position reports the District's net position, the difference between assets and deferred outflows, and liabilities and deferred inflows. The statement of activities reports the District's change in net position, the revenues less expenses for the fiscal year, either as an increase or a decrease, or in other words, the operating results for the year. However, the School District's goal is to provide services to its students, not to generate profits, as private-sector corporations do.

These two statements report the District's net position and changes in net position. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as the property tax base, political conditions at the State Capitol, student enrollment growth or shrinkage, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the District.

The district-wide financial statements can be found on pages 1-2 of this report.

Harper Creek Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2023

Reporting the District's Most Significant Funds

Fund Financial Statements – The fund financial statements provide detailed information about the most significant funds – not the District as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Accounting Manual*.

Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition and thus, no capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Additional Information – The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 7-27 of this report.

Harper Creek Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2023

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net position and changes in net position of the District's governmental activities. As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

The following is a summary of the School District's net position as of June 30, 2023 and 2022:

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Assets:		
Current assets	\$ 13,634,616	\$ 13,164,869
Non-current assets	53,670,602	53,191,461
Total assets	<u>67,305,218</u>	<u>66,356,330</u>
Deferred Outflows of Resources	<u>27,142,699</u>	<u>13,545,029</u>
Liabilities:		
Current liabilities	4,524,499	3,420,294
Non-current liabilities	122,303,081	98,551,519
Total liabilities	<u>126,827,580</u>	<u>101,971,813</u>
Deferred Inflows of Resources	<u>12,491,752</u>	<u>25,175,184</u>
Net Position:		
Invested in capital assets - net of related debt	26,974,756	24,159,636
Restricted	1,920,569	1,658,360
Unrestricted	<u>(73,766,740)</u>	<u>(73,063,634)</u>
Total net position	<u><u>\$ (44,871,415)</u></u>	<u><u>\$ (47,245,638)</u></u>

The above analysis focuses on the net position. The change in net position of the School District's governmental activities is discussed below. The net position differs from fund balances and a reconciliation appears on page 4.

By far the largest portion of the District's positive net position reflects its investment in capital assets (i.e. land, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Typically, one portion of the District's net position, the *restricted* portion, represents resources that are subject to external restrictions on how they may be used. In the case of the School District, these included amounts restricted for student activities, food service activities, and debt service. The *unrestricted* balance of \$(74,579,248), which is a *negative* net position, is negative as a result of the pension and OPEB liabilities. The pension and OPEB liabilities at fiscal year-end are expected to be reduced to \$0 by September 30, 2038.

The results of this year's operations for the School District as a whole are reported in the Statement of

Harper Creek Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2023

Activities which shows the change in net position for the fiscal year 2023.

The following is a summary of the changes in net position for the years ended June 30, 2023 and 2022:

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Revenues:		
Program revenues:		
Charges for services	\$ 1,874,283	\$ 1,259,118
Operating grants	10,866,397	9,484,097
General revenues:		
Property taxes	10,261,200	10,036,099
State School Aid	21,423,910	19,528,723
Unrestricted investment earnings	120,447	11,779
Other	126,909	113,100
Total revenues	<u>44,673,146</u>	<u>40,432,916</u>
Expenses:		
Instruction	23,295,141	19,778,608
Support services	11,914,396	10,368,815
Food service	1,763,842	1,560,149
Athletics	789,181	788,935
Student activities	476,425	343,437
Community service	417,949	301,746
Interest	1,594,180	1,549,423
Capital outlay	137,126	159,261
Depreciation (unallocated)	1,910,683	1,819,003
Total expenses	<u>42,298,923</u>	<u>36,669,377</u>
Change in net position	2,374,223	3,763,539
Net position, beginning of year	<u>(47,245,638)</u>	<u>(51,009,177)</u>
Net position, end of year	<u>\$ (44,871,415)</u>	<u>\$ (47,245,638)</u>

The District's net position increased by \$2,374,223 during the current fiscal year. The increase in net position differs from the change in fund balance and a reconciliation appears on page 6.

Since property taxes for operations and unrestricted State Aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

Harper Creek Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2023

General Fund Budgeting and Operating Highlights

During the fiscal year, the original budget was amended as additional information became known, including student counts and the final allocation amounts for the District's federal grants.

The change between the original and final amended budget for revenues was an increase of \$5,028,162. Local revenue changed by \$481,674 largely based on an increase to the final taxable property values and a conservative original budget. State sources increased by an \$4,090,375, a combination of an increase in the foundation allowance from what was projected in June 2022 and the final pupil count was increased. Federal sources increased by \$364,599 to reflect grant awards the District anticipated spending.

The change between the original and final amended budget for expenditures was an increase of \$3,533,999 over the original budget. The original budget for instruction and supporting services increased by \$1,575,091 and \$1,032,049, respectively, due to the spending of federal grant funds awarded and conservative budgeting in June, 2022.

Overall, the actual general fund revenues were \$17,284 less than the final amended budget, and the actual general fund expenditures were \$867,498 less than the final amended budget. The budget to actual expense variance was caused by the practice of being conservative in budgets and adjusting for a health insurance overstatement in previous years.

Capital Asset and Debt Administration

Capital Assets – At the end of the fiscal year 2023, the School District had \$88,566,853 invested in land and buildings, furniture and equipment, vehicles, and construction in progress. Of this amount, \$34,896,251 in depreciation/amortization has been taken over the years. We currently have a net book value of \$53,670,602.

	2023	(As Restated) 2022
Land	\$ 812,508	\$ 812,508
Construction in progress	1,647,127	591,882
Buildings and improvements	80,392,672	80,125,641
Vehicles	3,291,186	3,214,501
Furniture and equipment	2,127,632	1,636,700
Right to use - SBITAs	295,728	295,728
Total capital assets	88,566,853	86,676,960
Less accumulated depreciation/amortization	(34,896,251)	(33,189,771)
Net capital assets	\$ 53,670,602	\$ 53,487,189

Additional information on the District's capital assets can be found in the notes to the financial statements.

Harper Creek Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2023

Long-Term Debt – At June 30, 2023, the District had total long-term debt outstanding of \$53,349,260. Long-term debt at fiscal year-end included the following:

	2023	(As Restated) 2022
Bonds payable	\$ 37,180,000	\$ 41,005,000
Notes payable	1,131,967	1,414,959
Capital leases payable	10,640	42,560
SBITAs payable	237,120	295,728
Bond premium	1,842,606	2,258,984
School bond loan fund	12,864,319	11,318,985
Compensated absences	82,608	103,023
Total long-term debt	\$ 53,349,260	\$ 56,439,239

Additional information on the District's long-term debt can be found in the notes to the financial statements.

The District also has long-term pension and OPEB liabilities, netted with related deferred inflows and deferred outflows of resources, of approximately \$49,000,000 and \$6,000,000, respectively. These liabilities are being amortized through September 30, 2038. See Note 9 for further information.

Outlook for the Future

Supplemental funds, from both the State and federal levels, enabled the District to remain financially solid throughout this fiscal year. The School District needs to remain intentional about cost containment in order to maintain a stable financial position with the reduction in COVID pandemic monies and grants.

Our 23/24 budget was prepared expecting pupil count to remain consistent, a \$458 per pupil increase, and reflect anticipated increases in salary, health costs, and retirement.

Requests for Information

This financial report is designed to provide a general overview of the Harper Creek Community Schools' finances for all those with an interest in the District's finances. Questions concerning any of this information provided in this report or requests for additional information should be addressed to:

Office of the Superintendent
Harper Creek Community Schools
7454 B Drive North
Battle Creek, MI 49014

Harper Creek Community Schools

Statement of Net Position

June 30, 2023

	Governmental Activities
Assets:	
Cash and investments	\$ 7,166,829
Due from other governmental units	6,266,410
Inventories	53,021
Prepaid expenses	148,356
Capital assets:	
Cost of capital assets	88,566,853
Less: accumulated depreciation/amortization	<u>(34,896,251)</u>
Net capital assets	<u>53,670,602</u>
Total assets	<u>67,305,218</u>
Deferred Outflows of Resources:	
Deferred charge on refunding	678,995
Pension related	21,098,885
OPEB related	5,364,819
Total deferred outflows of resources	<u>27,142,699</u>
Liabilities:	
Accounts payable and accrued expenses	3,802,663
Unearned revenue	721,836
Long-term liabilities:	
Due within one year	4,954,808
Due in more than one year	48,629,797
Net pension liability	65,008,093
Net OPEB liability	3,710,383
Total liabilities	<u>126,827,580</u>
Deferred Inflows of Resources:	
Pension related	4,931,718
OPEB related	7,560,034
Total deferred inflows of resources	<u>12,491,752</u>
Net Position:	
Invested in capital assets, net of related debt	26,974,756
Restricted for:	
Food service	1,074,464
Student activities	458,894
Debt service	387,211
Unrestricted	<u>(73,766,740)</u>
Total net position	<u>\$ (44,871,415)</u>

See Notes to Financial Statements.

Harper Creek Community Schools

Statement of Activities
Year Ended June 30, 2023

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Change in Net Position</u>
Primary Government				
Governmental activities:				
Instruction	\$ 23,295,141	\$ -	\$ 8,476,010	\$ (14,819,131)
Support services	11,914,396	-	563,595	(11,350,801)
Food service activities	1,763,842	479,164	1,456,862	172,184
Athletics	789,181	138,043	-	(651,138)
Student activities	476,425	514,368	-	37,943
Community services	417,949	742,708	369,930	694,689
Interest on long-term debt	1,594,180	-	-	(1,594,180)
Capital outlay	137,126	-	-	(137,126)
Depreciation and amortization	1,910,683	-	-	(1,910,683)
Total governmental activities	<u>\$ 42,298,923</u>	<u>\$ 1,874,283</u>	<u>\$ 10,866,397</u>	<u>(29,558,243)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				4,993,750
Property taxes, levied for capital projects				5,267,450
State aid not restricted to specific purposes				21,423,910
Unrestricted investment earnings				120,447
Other				126,909
Total general revenues				<u>31,932,466</u>
Change in Net Position				2,374,223
Net Position - Beginning of Year				<u>(47,245,638)</u>
Net Position - End of Year				<u>\$ (44,871,415)</u>

Harper Creek Community Schools
Balance Sheet
Governmental Funds
June 30, 2023

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and investments	\$ 3,231,310	\$ 1,942,681	\$ 1,992,838	\$ 7,166,829
Due from other funds	42,101	-	2,660	44,761
Receivable from other governments	6,232,556	-	33,854	6,266,410
Inventories	33,006	-	20,015	53,021
Prepaid expenditures	148,356	-	-	148,356
Total assets	<u>\$ 9,687,329</u>	<u>\$ 1,942,681</u>	<u>\$ 2,049,367</u>	<u>\$ 13,679,377</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 241,273	\$ 363,316	\$ 81,815	\$ 686,404
Due to other funds	2,660	-	42,101	44,761
Salaries payable and related	3,116,259	-	-	3,116,259
Unearned revenue	716,954	-	4,882	721,836
Total liabilities	<u>4,077,146</u>	<u>363,316</u>	<u>128,798</u>	<u>4,569,260</u>
Fund Balances:				
Nonspendable:				
Inventories	33,006	-	20,015	53,021
Prepaid expenditures	148,356	-	-	148,356
Restricted:				
Food services	-	-	1,054,449	1,054,449
Student activities	-	-	458,894	458,894
Debt service	-	-	387,211	387,211
Assigned	611,772	1,579,365	-	2,191,137
Unassigned	4,817,049	-	-	4,817,049
Total fund balances	<u>5,610,183</u>	<u>1,579,365</u>	<u>1,920,569</u>	<u>9,110,117</u>
Total liabilities and fund balances	<u>\$ 9,687,329</u>	<u>\$ 1,942,681</u>	<u>\$ 2,049,367</u>	<u>\$ 13,679,377</u>

Harper Creek Community Schools

Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to Net Position of Governmental Activities on the Statement of Net Position

June 30, 2023

Total Fund Balances - Governmental Funds	\$ 9,110,117
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.

The cost of capital assets is	\$ 88,566,853	
Accumulated depreciation and amortization is	<u>(34,896,251)</u>	
		53,670,602

Long-term liabilities and related deferred outflows and inflows are not due and payable in the current period and are not reported in the funds.

Bonds payable	(37,180,000)	
Notes payable	(1,131,967)	
Capital leases payable	(10,640)	
SBITAs payable	(237,120)	
Unamortized bond premiums, net	(1,842,606)	
School bond loan funds payable	(12,864,319)	
Compensated absences	(82,608)	
Unamortized deferred charge on bond refunding	678,995	
Accrued interest on bonds and notes payable	(235,345)	
Deferred outflows related to net pension liability	21,098,885	
Deferred outflows related to net OPEB liability	5,364,819	
Deferred inflows related to net pension liability	(4,931,718)	
Deferred inflows related to net OPEB liability	(7,560,034)	
Net pension liability	(65,008,093)	
Net OPEB liability	<u>(3,710,383)</u>	
		<u>(107,652,134)</u>

Total Net Position - Governmental Activities	\$ <u>(44,871,415)</u>
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Harper Creek Community Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2023

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Local sources	\$ 4,383,744	\$ 993,172	\$ 5,351,158	\$ 10,728,074
State sources	29,535,179	-	77,603	29,612,782
Federal sources	2,146,691	-	1,379,259	3,525,950
Interdistrict and other	2,920,736	-	-	2,920,736
Total revenues	<u>38,986,350</u>	<u>993,172</u>	<u>6,808,020</u>	<u>46,787,542</u>
Expenditures:				
Instruction	24,729,633	-	-	24,729,633
Support services	13,317,203	-	-	13,317,203
Community services	389,149	-	-	389,149
Food service activities	-	-	2,095,208	2,095,208
Student activities	-	-	476,425	476,425
Other	28,800	-	759	29,559
Debt service:				
Principal	58,608	282,992	3,825,000	4,166,600
Interest and other charges	-	36,474	1,513,312	1,549,786
Capital outlay	-	1,813,437	-	1,813,437
Total expenditures	<u>38,523,393</u>	<u>2,132,903</u>	<u>7,910,704</u>	<u>48,567,000</u>
Revenues Over (Under) Expenditures	<u>462,957</u>	<u>(1,139,731)</u>	<u>(1,102,684)</u>	<u>(1,779,458)</u>
Other Financing Sources (Uses):				
Proceeds from long-term debt, net	-	-	1,145,000	1,145,000
Transfers in	25,000	-	361	25,361
Transfers out	(361)	-	(25,000)	(25,361)
Total other financing sources (uses)	<u>24,639</u>	<u>-</u>	<u>1,120,361</u>	<u>1,145,000</u>
Net Changes in Fund Balances	487,596	(1,139,731)	17,677	(634,458)
Fund Balances - Beginning of Year	<u>5,122,587</u>	<u>2,719,096</u>	<u>1,902,892</u>	<u>9,744,575</u>
Fund Balances - End of Year	<u>\$ 5,610,183</u>	<u>\$ 1,579,365</u>	<u>\$ 1,920,569</u>	<u>\$ 9,110,117</u>

Harper Creek Community Schools

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2023

Net Change in Fund Balances - Total Governmental Funds	\$	(634,458)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	\$ (1,910,683)	
Capital outlay	2,096,385	
		185,702

Governmental funds report the entire net sales price (proceeds) from the sale of assets as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of assets. Thus, the change in net position differs from the change in fund balance by the net book value.

Net book value of assets sold		(2,289)
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Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds:

Issuance of long-term debt	(1,545,334)	
Principal payments on long-term debt	4,198,520	
Amortization of bond premium	416,378	
Amortization of deferred charge on refunding	(115,683)	
		2,953,881

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Change in accrued interest on bonds and notes payable	23,325	
Change in accrued compensated absences	20,415	
		43,740

Governmental funds report the required pension and OPEB contributions for the District's fiscal year ended June 30 as expenditures. The Statement of Activities reports the fully accrued pension and OPEB expenses based upon a September year-end to coincide with the State of Michigan's fiscal year.

Changes in pension related liabilities and deferrals	(2,755,513)	
Changes in OPEB related liabilities and deferrals	2,583,160	
		(172,353)

Change in Net Position of Governmental Activities	\$	2,374,223
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See Notes to Financial Statements.

Harper Creek Community Schools Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Harper Creek Community Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide and Fund Financial Statements

District-Wide Statements – The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

The Statement of Net Position presents all governmental activities on a consolidated basis. The Statement of Net Position reports all assets and liabilities including those of a long-term nature. The net difference is reported as net position. Net position is categorized as net investment in capital assets, restricted net position, and unrestricted net position. It is the District’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other unrestricted items are not included as program revenues but instead as general revenue. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Harper Creek Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide and Fund Financial Statements (Continued)

Fund-Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, severance pay, claims, and judgments, are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds; issuance of long-term debt and acquisition of lease and SBITA assets are reported as other financing sources.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period, are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The School District reports the following major governmental funds:

General Fund – The General Fund is the School District’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Capital Projects Fund – The Capital Projects Fund is used to record tax receipts or other revenue and the disbursement of monies specifically designated for the acquisition or construction of capital assets.

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes (not including expendable trusts or major capital projects). The District maintains the Food Service Fund and the Student Activities Fund.

Debt Funds – Debt funds are used to account for and report financial resources that are restricted to expenditures for principal and interest. The District maintains the following debt funds: 2015 Debt, 2016 Debt, 2017 Debt, and 2019 Debt.

Revenue, Assets, Liabilities, and Net Position or Equity

State Revenue – The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2023, the foundation allowance was based on pupil membership counts taken in February 2022 and October 2022.

Harper Creek Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

State Revenue (Continued) – The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-PRE (principle residence exemption) property taxes which may be levied at a rate of up to 18 mills. The local portion also includes 6 mills on commercial personal property. The State revenue is recognized during the foundation period and is funded through payments from October 2022 to August 2023. The unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

Property Taxes - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is September 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2023, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – non-primary residence	18.0000
General Fund – commercial personal property	6.0000
Debt Funds	7.1200

Tax abatements provided to property taxpayers, if any, were not significant, and thus, no disclosure was deemed required in accordance with GASB Statement No. 77, *Tax Abatement Disclosures*.

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Harper Creek Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

Inventories and Prepaid Items – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Group purchases are evaluated on a case-by-case basis. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Right to use assets are amortized using the straight-line method over the shorter of the lease/subscription period or the estimated useful lives. Capital assets, including right-to-use assets, are depreciated/amortized using the straight-line method over the following useful lives:

Buildings and improvements	5-50 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-10 years
Right to use - SBITAs	4-6 years

Leases and Subscription-Based IT Arrangements (SBITAs) – The District recognizes lease/subscription-based IT arrangement liabilities and the related intangible right-to-use assets in the government-wide financial statements with an initial individual value of \$10,000 or more.

At the commencement of a lease/subscription, the District initially measures the liability at the present value of payments expected to be made during the lease/SBITA term. Subsequently, the lease/SBITA liability is reduced by the principal portion of the lease/SBITA payments made. The lease/SBITA right-to-use asset is initially measured as the initial amount of the lease/SBITA liability, adjusted for lease/subscription payments made at or before the lease/subscription commencement date, plus certain initial direct costs. Subsequently, the lease/SBITA asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases/SBITAs include how the District determines (1) the discount rate it uses to discount the expected lease/SBITA payments to present value, (2) lease/SBITA terms, and (3) lease/SBITA payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases/SBITA.
- The lease/SBITA term includes the noncancelable period of the lease/subscription. Lease/SBITA payments included in the measurement of the lease/SBITA liability are composed of fixed payments and any purchase option price that the District is reasonably certain to exercise.

Harper Creek Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Leases and Subscription-Based IT Arrangements (SBITAs) (Continued)– The District monitors changes in circumstances that would require a remeasurement of its lease/SBITA liabilities and remeasures lease/SBITA assets and liabilities if certain changes occur that are expected to significantly affect the amount of the lease/SBITA liabilities.

Lease/SBITA assets are reported with other capital assets, and lease/SBITA liabilities are reported with long-term obligations on the Statement of Net Position.

Compensated Absences - The District reports a liability for compensated absences which consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method in which leave amounts for employees who are currently eligible to receive termination payments are included.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District currently reports deferred outflows of resources related to deferred pension and OPEB plan expenses. Deferred pension and OPEB plan expenses are recognized in the applicable plan years. The District also currently reports deferred outflows of resources from pension and OPEB payments made subsequent to the measurement date to be recognized as the corresponding time lags are met.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to its pension and OPEB plan earnings. These future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results.

Defined Benefit Pension Plan – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value. See Note 9 for detailed information.

Harper Creek Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Related investments are reported at fair value. See Note 9 for detailed information.

Fund Equity – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are not in spendable form or are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision-making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Use of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the General Fund and Food Service Fund are noted in the required supplemental information section.

Harper Creek Community Schools
Notes to Financial Statements

Note 2 – Stewardship, Compliance, and Accountability (Continued)

4. The Superintendent is authorized to transfer budgeted amounts between major expenditures functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to fiscal year-end.

Note 3 – Deposits and Investments

At year-end, the District's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and investments	<u>\$ 7,166,829</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, CDs)	<u>\$ 7,166,829</u>
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Investment and Deposit Risk – The District's cash and investments are subject to several types of risk, as noted below.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District requires that financial institutions be evaluated and only those with an acceptable risk level are used for the District's deposits for custodial credit risk. At year-end, the District's deposit balance of approximately \$7,400,000 had \$7,200,000 of bank deposits that were uninsured and uncollateralized.

Custodial Credit Risk – Investments – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have an investment policy for custodial credit risk.

Interest Rate Risk – State law limits the allowable investments and the maturities of some of the allowable investments. The District's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. See Note 1 for a full description of allowed investments. The District's investment policy does not further limit its investment choices.

Harper Creek Community Schools
Notes to Financial Statements

Note 4 – Receivables

Receivables at year end totaled \$6,266,410 and consist mainly of amounts due from the Michigan Department of Education for State aid and federal grants.

Note 5 – Capital Assets

Capital asset activity of the District's governmental activities was as follows:

	(As Restated) Beginning Balance	Additions	Disposals	Year-End Balance
Capital assets not being depreciated/ amortized:				
Land	\$ 812,508	\$ -	\$ -	\$ 812,508
Construction in progress	591,882	1,055,245	-	1,647,127
Subtotal	<u>1,404,390</u>	<u>1,055,245</u>	<u>-</u>	<u>2,459,635</u>
Capital assets being depreciated/ amortized:				
Buildings and improvements	80,125,641	267,031	-	80,392,672
Buses and other vehicles	3,214,501	207,816	131,131	3,291,186
Furniture and equipment	1,636,700	566,293	75,361	2,127,632
Right to use - SBITAs	295,728	-	-	295,728
Subtotal	<u>85,272,570</u>	<u>1,041,140</u>	<u>206,492</u>	<u>86,107,218</u>
Accumulated depreciation/amortization:				
Buildings and improvements	29,633,121	1,543,691	-	31,176,812
Buses and other vehicles	2,541,906	167,778	131,131	2,578,553
Furniture and equipment	1,014,744	142,259	73,072	1,083,931
Right to use - SBITAs	-	56,955	-	56,955
Subtotal	<u>33,189,771</u>	<u>1,910,683</u>	<u>204,203</u>	<u>34,896,251</u>
Net capital assets being depreciated/ amortized	<u>52,082,799</u>	<u>(869,543)</u>	<u>2,289</u>	<u>51,210,967</u>
Net capital assets	<u>\$ 52,674,681</u>	<u>\$ 185,702</u>	<u>\$ 2,289</u>	<u>\$ 52,858,094</u>

Depreciation/amortization for the current year totaled \$1,910,683. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Harper Creek Community Schools
Notes to Financial Statements

Note 6 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

As of June 30, 2023, interfund receivables and payables consisted of the following:

	Due From:	
	General Fund	Nonmajor Governmental Funds
Due To:		
General Fund	\$ -	\$ 42,101
Nonmajor governmental funds	2,660	-
	\$ 2,660	\$ 42,101

For the year ended June 30, 2023, interfund transfers consisted of the following:

	Transfers In	
	General Fund	Nonmajor Governmental Funds
Transfers Out:		
General Fund	\$ -	\$ 361
Nonmajor governmental funds	\$ 25,000	\$ -
	\$ 25,000	\$ 361

The \$25,000 was a transfer from the Food Service Fund to the General Fund for the payment of indirect costs.

Harper Creek Community Schools
Notes to Financial Statements

Note 7 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment, and right-to-use assets. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Activity is summarized as follows:

	(As Restated) Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation					
bonds payable	\$ 41,005,000	\$ -	\$ 3,825,000	\$ 37,180,000	\$ 3,950,000
Notes payable	1,414,959	-	282,992	1,131,967	282,992
Capital leases payable	42,560	-	31,920	10,640	10,640
SBITAs payable	295,728	-	58,608	237,120	55,325
Subtotal - installment debt	42,758,247	-	4,198,520	38,559,727	4,298,957
Bond premium	2,258,984	-	416,378	1,842,606	416,376
School bond loan fund	11,318,985	1,545,334	-	12,864,319	-
Compensated absences	103,023	-	20,415	82,608	4,130
Total long-term debt	<u>\$ 56,439,239</u>	<u>\$ 1,545,334</u>	<u>\$ 4,635,313</u>	<u>\$ 53,349,260</u>	<u>\$ 4,719,463</u>

General obligation bonds and notes payable consist of:

Bonds payable - \$18,245,000 2015 Series A Refunding

Bonds, due in annual installments of \$2,060,000 to \$2,085,000 through year 2024; interest at 4.00%

\$ 2,060,000

Bonds payable - \$8,715,000 2016 Refunding Bonds, due in annual installments of \$600,000 to \$2,070,000 through year 2029; interest at 4.00%

8,715,000

Bonds payable - \$15,350,000 2017 Refunding Bonds, due in annual installments of \$685,000 to \$2,820,000 through year 2033; interest at 2.00% to 5.00%

12,565,000

Bonds payable - \$15,790,000 2019 Refunding Bonds (SBLF), due in annual installments of \$1,055,000 to \$2,250,000 through year 2031; interest at 1.95% to 2.74%

13,840,000

Notes payable – Southern Michigan Bank & Trust, secured by equipment; annual installments of \$282,992 plus interest at 2.00%; matures 2027

1,131,967
\$ 38,311,967

Harper Creek Community Schools
Notes to Financial Statements

Note 7 – Long-Term Debt (Continued)

Future principal and interest payment requirements on bonds and notes payable are as follows:

	Governmental Activities		
	Principal	Interest	Total
2024	\$ 4,232,992	\$ 1,408,212	\$ 5,641,204
2025	4,367,992	1,266,938	5,634,930
2026	4,512,992	1,120,096	5,633,088
2027	4,657,991	968,938	5,626,929
2028	4,535,000	806,868	5,341,868
2029-2033	16,005,000	1,487,204	17,492,204
Total	\$ 38,311,967	\$ 7,058,256	\$ 45,370,223

Capital lease payable consists of:

Capital lease payable - \$159,600, due in monthly installments of \$2,660 through year 2024; interest at 0.00%	\$ 10,640
--	-----------

Future minimum lease payments are as follows:

	Payments
2024	\$ 10,640
Total	\$ 10,640

Of the amounts reported in capital assets, \$159,600 of furniture and equipment were purchased through a capital lease. The related accumulated depreciation was \$127,680 at year-end.

SBITAs payable consist of:

SBITA payable - \$209,811, due in annual installments of approximately \$35,000 through the year 2028 including interest at 1.19%	\$ 168,761
SBITA payable - \$94,560, due in annual installments of approximately \$23,000 through the year 2026 including interest at 1.86%	68,359
	\$ 237,120

Harper Creek Community Schools
Notes to Financial Statements

Note 7 – Long-Term Debt (Continued)

Annual debt service requirements to maturity on the above SBITAs payable are as follows:

	<u>Principal</u>	<u>SBITAs Payable Interest</u>	<u>Total</u>
2024	\$ 55,325	\$ 3,284	\$ 58,609
2025	56,134	2,475	58,609
2026	56,955	1,653	58,608
2027	34,150	819	34,969
2028	<u>34,556</u>	<u>624</u>	<u>35,180</u>
Total	<u>\$ 237,120</u>	<u>\$ 8,855</u>	<u>\$ 245,975</u>

School Bond Loan Fund

The school bond loan fund represents amounts borrowed from the State of Michigan School Bond Loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Interest rate at year-end was 4.11441% and the mandatory final repayment date is May 1, 2037. Changes in principal and interest were as follows:

	<u>School Loan Revolving Fund</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balances	\$ 10,864,260	\$ 454,725	\$ 11,318,985
Additions	<u>1,145,000</u>	<u>400,334</u>	<u>1,545,334</u>
Ending balances	<u>\$ 12,009,260</u>	<u>\$ 855,059</u>	<u>\$ 12,864,319</u>

Note 8– Risk Management

The School District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

Harper Creek Community Schools
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions

Organization

Pension/OPEB Plan Description – The School District participates in the Michigan Public School Employees' Retirement System ("MPERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees, and covers substantially all employees of the School District. There are currently approximately 690 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. In addition, the System maintains a health plan ("OPEB") which provides postemployment healthcare benefits to all eligible retirees as an elective option including health, prescription drug, dental, and vision coverage.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State of Michigan Investment Board serves as the investment fiduciary and custodian for the System.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Annual Comprehensive Financial Report and are available on the ORS website at www.michigan.gov/orsschools. Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan and OPEB plan fiduciary net positions.

Pension Benefits Provided – Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. Depending on the plan option selected, member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

Based on current benefit provisions, new hires can opt between two plans. The first plan, called Pension Plus 2, is a hybrid plan that contains a pension component with a required employee contribution and a flexible and transferrable defined contribution tax deferred investment account component that contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 plan is 6%. The second option is a Defined Contribution plan under which a participant receives a 4% employer contribution to a tax-deferred 457 account and can choose to make employee contributions up to the maximum allowed per IRS regulations.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account, if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Harper Creek Community Schools
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

OPEB Benefits Provided – Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008 (Basic, MIP-Fixed, and MIP Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of OPEB, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute.

Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the MPSERS, who earned service credit in the twelve months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stopped paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) accounts.

Pension/OPEB Plan Contributions – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the active plan members. The School District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension and OPEB benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded actuarial accrued liability.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The normal cost is the annual cost assigned under the actuarial funding method to the current plan year. The remainder is called the actuarial accrued liability. The unfunded (overfunded) actuarial accrued liability will be amortized over a declining period ending September 30, 2038.

Harper Creek Community Schools
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

Pension Plan Contributions – The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2022:

<u>Benefit Type</u>	<u>Member Rates</u>	<u>Status</u>
Basic (Defined Benefit)	0.0% - 4.0%	Closed
MIP (Defined Benefit)	3.0% - 7.0%	Closed
Pension Plus (Hybrid)	3.0% - 6.4%	Closed
Pension Plus 2 (Hybrid)	6.2%	Open
Defined Contribution	0.0%	Open

Employer contributions range from 13.73% to 20.14% for the plan year ended September 30, 2022 and are determined based on employee elections. The District's required and actual contributions to the plan for the year ended September 30, 2022 were \$5,883,228. The District's required and actual pension contributions include an allocation of \$2,618,710 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended September 30, 2022.

OPEB Contributions – OPEB employee contributions in effect for the fiscal year ended September 30, 2022 range from 0% - 3%. OPEB contributions are also subject to law under Public Act 300 of 1980, as amended, and the provisions may be amended only by action of the State Legislature. Employers are required to contribute amounts necessary to finance the coverage of active and retired members.

Employer contributions range from 7.23% to 8.09% for the plan year ended September 30, 2022 and are determined based on employee elections. Required contributions to the OPEB plan from the District were \$1,334,391 for the year ended September 30, 2022. The District's required and actual OPEB contributions include an allocation of \$0 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended September 30, 2022.

Pension/OPEB Liabilities, Pension/OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions/OPEB

Proportionate Share of School District's Net Pension Liability - At June 30, 2023, the District reported a liability of \$65,008,093 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2021. The District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the System during the measurement period by the percent of statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2022, the District's proportionate share was .1728538 percent, an increase of .00557778 percent from its proportion measured as of September 30, 2021.

Harper Creek Community Schools
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Pension/OPEB Liabilities, Pension/OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions/OPEB (Continued)

Pension Expense - For the year ended June 30, 2023, the School District recognized pension expense of \$8,717,716, inclusive of payments to fund the MPSERS UAAL stabilization rate.

Proportionate Share of School District's Net OPEB Liability - At June 30, 2023, the District reported a liability of \$3,710,383 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2021. The District's proportionate share of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the System during the measurement period by the percent of statutorily required OPEB contributions from all applicable employers during the measurement period. At September 30, 2022, the District's proportionate share was .17517817 percent, an increase of .00837490 percent from its proportion measured as of September 30, 2021.

OPEB Expense - For the year ended June 30, 2023, the School District recognized OPEB benefit of \$1,222,673 inclusive of payments to fund the MPSERS UAAL stabilization rate.

Deferred Outflows and Deferred Inflows - At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	Pension	OPEB	Pension	OPEB
Difference between expected and actual experience	\$ 650,308	\$ -	\$ 145,351	\$ 7,267,220
Changes of assumptions	11,170,720	3,307,184	-	269,290
Net difference between projected and actual earnings on pension/OPEB plan investments	152,444	289,996	-	-
Changes in proportion and differences between District contributions and proportionate share of contributions	1,579,009	627,728	31,309	23,524
District contributions subsequent to the measurement date	7,546,404	1,139,911	4,755,058	-
Total	<u>\$ 21,098,885</u>	<u>\$ 5,364,819</u>	<u>\$ 4,931,718</u>	<u>\$ 7,560,034</u>

\$7,546,404 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

\$1,139,911 reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024.

Harper Creek Community Schools
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Pension/OPEB Liabilities, Pension/OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions/OPEB (Continued)

Deferred Outflows and Deferred (Continued)

Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions and OPEB will be recognized in pension/OPEB expense as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Pension</u>	<u>OPEB</u>
2024	\$ 4,000,635	\$ (1,207,195)
2025	2,958,690	(1,116,249)
2026	2,535,775	(1,038,975)
2027	3,880,721	(4,170)
2028	-	12,847
2029	-	18,616

Payables to the Pension/OPEB Plan - The District reported an accrued pension/OPEB plan payable at June 30, 2023 of \$420,981. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2023 but not yet paid. The District is current on all required pension and OPEB plan payments. Amounts accrued at year end represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from State Revenue Section 147c restricted to fund the MPSERS unfunded actuarial accrued liability (UAAL).

Actuarial Assumptions

Actuarial Valuations and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A summary of actuarial assumptions as of the latest actuarial valuation follows:

Valuation date	September 30, 2021
Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans	6.00%, net of investment expenses
Pension Plus Plan and Plus 2 Plan	6.00%, net of investment expenses
OPEB	6.00%, net of investment expenses
Projected salary increases	2.75 – 11.55%, including wage inflation at 2.75%
Healthcare cost trend rate	Pre-65: 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65: 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Cost of living pension adjustments	3.0% annual non-compounded for MIP members
Mortality: Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Harper Creek Community Schools
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Mortality: Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disabled Retirees:	RP-2014 Male and Female Employee Disabled Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other Assumptions (OPEB) – applies to individuals hired before September 4, 2012:

Opt-Out Assumption	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Additional assumption information includes the following:

- Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2018 valuation. The total pension/OPEB liability as of September 30, 2022 is based on the results of an actuarial valuation date of September 30, 2021, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.3922 for pension plan employers and 6.2250 for OPEB plan employers.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Plan Assets – The long-term expected rate of return on pension/OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension/OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Harper Creek Community Schools
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension/OPEB plan's target asset allocation as of September 30, 2022, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	25.0%	5.1%
Private equity pools	16.0%	8.7%
International equity	15.0%	6.7%
Fixed income pools	13.0%	(0.2)%
Real estate and infrastructure pools	10.0%	5.3%
Absolute return pools	9.0%	2.7%
Real return/opportunistic pools	10.0%	5.8%
Short-term investment pools	<u>2.0%</u>	(0.5)%
Total	<u>100.0%</u>	

*Long-term rates of return are net of administrative expenses and 2.2% inflation.

Rate of Return – For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on pension/OPEB plan investments, net of pension/OPEB plan investment expense, was (4.18)% and (4.99)%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate – A discount rate of 6.00% was used to measure the total pension and OPEB liabilities. This discount rate was based on the long-term expected rates of return on pension and OPEB plan investments of 6.00%.

The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on these assumptions, the pension/OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension/OPEB plan investments was applied to all periods of projected benefits payments to determine the total pension/OPEB liabilities.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net pension liability calculated using a discount rate of 6.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease 5.00%	Current Single Discount Rate Assumption 6.00%	1% Increase 7.00%
<u>\$85,786,532</u>	<u>\$65,008,093</u>	<u>\$47,885,723</u>

Harper Creek Community Schools
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 6.00%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

1% Decrease 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
<u>\$6,223,811</u>	<u>\$3,710,383</u>	<u>\$1,593,765</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the School District's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
<u>\$1,553,731</u>	<u>\$3,710,383</u>	<u>\$6,131,268</u>

Note 10 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 11 – Net Investment in Capital Assets

The composition of net investment in capital assets as of June 30, 2023, was as follows:

Capital assets not being depreciated	\$ 1,647,127
Capital assets being depreciated, net	51,210,967
Installment debt	(38,559,727)
Non-capital related debt	13,840,000
Bond premium	(1,842,606)
Deferred charge on bond refunding	<u>678,995</u>
Net investment in capital assets	<u>\$ 26,974,756</u>

Harper Creek Community Schools
Notes to Financial Statements

Note 12 – Change in Accounting Principle

For the year ended June 30, 2023, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, which was issued in May, 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end-users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

The implementation of this standard impacted the beginning of year balances of capital assets and long-term debt resulting in restatements as follows:

	<u>Capital Assets</u>	<u>Long-Term Debt</u>
Balances as of July 1, 2022, as previously stated	\$ 53,191,461	\$ 56,143,511
Adoption of GASB Statement No. 96	<u>295,728</u>	<u>295,728</u>
Balances as of July 1, 2022, as restated	<u>\$ 53,487,189</u>	<u>\$ 56,439,239</u>

Required Supplementary Information

Harper Creek Community Schools
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2023

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 3,843,776	\$ 4,325,450	\$ 4,383,744
State sources	25,258,276	29,348,651	29,535,179
Federal sources	2,062,361	2,426,960	2,146,691
Interdistrict and other	2,811,059	2,902,573	2,920,736
Total revenues	33,975,472	39,003,634	38,986,350
Expenditures:			
Instruction:			
Basic programs	18,788,584	20,363,675	19,934,040
Added needs	3,917,762	4,949,811	4,795,593
Support services:			
Pupil	1,741,779	1,846,278	1,790,573
Instructional staff	750,292	823,430	689,192
General administration	818,494	903,162	897,714
School administration	1,734,580	1,885,308	1,869,322
Business	547,064	634,753	624,765
Operation & maintenance	3,582,879	3,763,152	3,713,315
Pupil transportation	1,680,038	1,750,149	1,696,086
Central services	1,237,486	1,277,726	1,247,055
Athletic activities	755,260	782,306	789,181
Community services:			
Community activities	302,674	382,341	389,149
Other	-	28,800	28,800
Debt service:			
Principal	-	-	58,608
Total expenditures	35,856,892	39,390,891	38,523,393
Revenues Over (Under) Expenditures	(1,881,420)	(387,257)	462,957
Other Financing Sources (Uses):			
Transfers in	-	-	25,000
Transfers out	(550)	(1,600)	(361)
Total other financing sources (uses)	(550)	(1,600)	24,639
Net Changes in Fund Balances	(1,881,970)	(388,857)	487,596
Fund Balances - Beginning of Year	5,122,587	5,122,587	5,122,587
Fund Balances - End of Year	\$ 3,240,617	\$ 4,733,730	\$ 5,610,183

See Independent Auditors' Report.

Harper Creek Community Schools
Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan
Last Nine Fiscal Years (Amounts Determined Each Year as of September 30)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	<u>0.172854%</u>	<u>0.167276%</u>	<u>0.167080%</u>	<u>0.165260%</u>	<u>0.161630%</u>	<u>0.158520%</u>	<u>0.153030%</u>	<u>0.152330%</u>	<u>0.151710%</u>
District's proportionate share of net pension liability	<u>\$ 65,008,093</u>	<u>\$ 39,603,290</u>	<u>\$ 57,393,966</u>	<u>\$ 54,727,910</u>	<u>\$ 48,590,222</u>	<u>\$ 41,079,377</u>	<u>\$ 38,179,920</u>	<u>\$ 37,205,798</u>	<u>\$ 33,416,465</u>
District's covered-employee payroll	<u>\$ 16,977,101</u>	<u>\$ 15,027,315</u>	<u>\$ 14,686,331</u>	<u>\$ 14,525,335</u>	<u>\$ 13,842,535</u>	<u>\$ 13,453,797</u>	<u>\$ 12,939,039</u>	<u>\$ 12,870,674</u>	<u>\$ 12,966,916</u>
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>382.92%</u>	<u>263.54%</u>	<u>390.80%</u>	<u>376.78%</u>	<u>351.02%</u>	<u>305.34%</u>	<u>295.08%</u>	<u>289.07%</u>	<u>257.71%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>60.77%</u>	<u>72.60%</u>	<u>59.72%</u>	<u>60.31%</u>	<u>62.36%</u>	<u>64.21%</u>	<u>63.27%</u>	<u>63.17%</u>	<u>66.20%</u>

Harper Creek Community Schools
Schedule of the District's Pension Contributions to the MPSERS Plan
Last Nine Fiscal Years (Amounts Determined Each Year as of June 30)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions	\$ 8,077,577	\$ 5,685,553	\$ 4,974,587	\$ 4,618,172	\$ 4,364,842	\$ 4,417,200	\$ 3,720,967	\$ 3,664,574	\$ 2,752,177
Contributions in relation to statutorily required contributions	8,077,577	5,685,553	4,974,587	4,618,172	4,364,842	4,417,200	3,720,967	3,664,574	2,752,177
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 17,112,476	\$ 16,081,609	\$ 14,754,593	\$ 14,776,305	\$ 14,374,232	\$ 13,828,927	\$ 13,498,334	\$ 12,890,178	\$ 12,960,617
Contributions as a percentage of covered-employee payroll	47.20%	35.35%	33.72%	31.25%	30.37%	31.94%	27.57%	28.43%	21.23%

Harper Creek Community Schools
Schedule of the District's Proportionate Share of the Net OPEB Liability of the MPSERS Plan
Last Six Fiscal Years (Amounts Determined as of September 30)

	2022	2021	2020	2019	2018	2017
District's proportion of net OPEB liability (%)	0.175178%	0.166803%	0.165850%	0.166300%	0.162650%	0.157980%
District's proportionate share of net OPEB liability	\$ 3,710,383	\$ 2,546,048	\$ 8,885,026	\$ 11,936,244	\$ 12,929,182	\$ 13,989,492
District's covered-employee payroll	\$ 16,977,101	\$ 15,027,315	\$ 14,686,331	\$ 14,525,335	\$ 13,842,535	\$ 13,453,797
District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	21.86%	16.94%	60.50%	82.18%	93.40%	103.98%
Plan fiduciary net position as a percentage of total OPEB liability	83.09%	87.33%	59.44%	48.46%	42.95%	36.39%

Harper Creek Community Schools
Schedule of the District's OPEB Contributions to the MPSERS Plan
Last Six Fiscal Years (Amounts Determined as of June 30)

	2023	2022	2021	2020	2019	2018
Statutorily required OPEB contributions	\$ 1,346,870	\$ 1,270,488	\$ 1,211,510	\$ 1,167,800	\$ 1,126,450	\$ 1,023,873
OPEB contributions in relation to statutorily required contributions	1,346,870	1,270,488	1,211,510	1,167,800	1,126,450	1,023,873
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll (OPEB)	\$ 17,112,476	\$ 16,081,609	\$ 14,754,593	\$ 14,776,305	\$ 14,374,232	\$ 13,828,927
OPEB contributions as a percentage of covered-employee payroll	7.87%	7.90%	8.21%	7.90%	7.84%	7.40%

Harper Creek Community Schools

Notes to Required Supplementary Information Pension and OPEB Schedules
Year Ended June 30, 2023

Changes of Benefit Terms: There were no changes of benefit terms in 2022.

Changes of Assumptions: For the State's fiscal year ended September 30, 2022:

The recognition period for liabilities, an average of the expected remaining service lives of all employees, changed to 4.3922 from 4.4367 for pension plan employers and to 6.2250 from 6.1312 for OPEB plan employers.

The investment rate of return for pension and OPEB decreased to 6.00% from 6.80% for MIP and Basic and Pension Plus pension plans and from 6.95% for OPEB plans.

Other Supplementary Information

Harper Creek Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2023

	<u>Special Revenue</u>		<u>Debt Funds</u>				<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Student Activity Fund</u>	<u>2015 Debt Fund</u>	<u>2016 Debt Fund</u>	<u>2017 Debt Fund</u>	<u>2019 Debt Fund</u>	
<u>Assets</u>							
Cash and investments	\$ 1,136,052	\$ 472,235	\$ 96,463	\$ 135,649	\$ 73,625	\$ 78,814	\$ 1,992,838
Due from other funds	-	-	-	-	-	2,660	2,660
Receivable from other governments	33,854	-	-	-	-	-	33,854
Inventories	20,015	-	-	-	-	-	20,015
Total assets	<u>\$ 1,189,921</u>	<u>\$ 472,235</u>	<u>\$ 96,463</u>	<u>\$ 135,649</u>	<u>\$ 73,625</u>	<u>\$ 81,474</u>	<u>\$ 2,049,367</u>
<u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	\$ 81,187	\$ 628	\$ -	\$ -	\$ -	\$ -	\$ 81,815
Due to other funds	29,388	12,713	-	-	-	-	42,101
Deferred revenue	4,882	-	-	-	-	-	4,882
Total liabilities	<u>115,457</u>	<u>13,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128,798</u>
Fund Balances:							
Nonspendable:							
Inventories	20,015	-	-	-	-	-	20,015
Restricted	1,054,449	458,894	96,463	135,649	73,625	81,474	1,900,554
Total fund balances	<u>1,074,464</u>	<u>458,894</u>	<u>96,463</u>	<u>135,649</u>	<u>73,625</u>	<u>81,474</u>	<u>1,920,569</u>
Total liabilities and fund balances	<u>\$ 1,189,921</u>	<u>\$ 472,235</u>	<u>\$ 96,463</u>	<u>\$ 135,649</u>	<u>\$ 73,625</u>	<u>\$ 81,474</u>	<u>\$ 2,049,367</u>

Harper Creek Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2023

	Special Revenue		Debt Funds				Total Nonmajor Governmental Funds
	Food Service Fund	Student Activity Fund	2015 Debt Fund	2016 Debt Fund	2017 Debt Fund	2019 Debt Fund	
Revenues:							
Local sources	\$ 490,777	\$ 523,631	\$ 1,794,835	\$ 275,261	\$ 1,005,580	\$ 1,261,074	\$ 5,351,158
State sources	77,603	-	-	-	-	-	77,603
Federal sources	1,379,259	-	-	-	-	-	1,379,259
Total revenues	1,947,639	523,631	1,794,835	275,261	1,005,580	1,261,074	6,808,020
Expenditures:							
Food service activities	2,095,208	-	-	-	-	-	2,095,208
Student activities	-	476,425	-	-	-	-	476,425
Debt service:							
Principal	-	-	2,085,000	-	685,000	1,055,000	3,825,000
Interest and other charges	-	-	166,304	349,100	628,550	369,358	1,513,312
Other	-	-	314	48	176	221	759
Total expenditures	2,095,208	476,425	2,251,618	349,148	1,313,726	1,424,579	7,910,704
Revenues Over (Under) Expenditures	(147,569)	47,206	(456,783)	(73,887)	(308,146)	(163,505)	(1,102,684)
Other Financing Sources (Uses):							
Proceeds from long-term debt, net	-	-	522,308	168,635	293,206	160,851	1,145,000
Transfers in	361	-	-	-	-	-	361
Transfers out	(25,000)	-	-	-	-	-	(25,000)
Total other financing sources (uses)	(24,639)	-	522,308	168,635	293,206	160,851	1,120,361
Net Changes in Fund Balances	(172,208)	47,206	65,525	94,748	(14,940)	(2,654)	17,677
Fund Balances - Beginning of Year	1,246,672	411,688	30,938	40,901	88,565	84,128	1,902,892
Fund Balances - End of Year	\$ 1,074,464	\$ 458,894	\$ 96,463	\$ 135,649	\$ 73,625	\$ 81,474	\$ 1,920,569

See Notes to Financial Statements.

Harper Creek Community Schools

Single Audit Report

Year Ended June 30, 2023

Contents

	<u>Page</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1 - 2
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	3 - 5
Schedule of Expenditures of Federal Awards.....	6 - 7
Schedule of Reconciliation of Revenues with Schedule of Expenditures of Federal Awards.....	8
Notes to Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs.....	10
Comments on Resolution of Findings from June 30, 2022.....	11



WILLIS & JURASEK

CPAS AND CONSULTANTS

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Education
Harper Creek Community Schools
Battle Creek, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harper Creek Community Schools as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Harper Creek Community Schools' basic financial statements, and have issued our report thereon dated September 30, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harper Creek Community Schools' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harper Creek Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Harper Creek Community Schools' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harper Creek Community Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 30, 2023



WILLIS & JURASEK

CPAS AND CONSULTANTS

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Education
Harper Creek Community Schools
Battle Creek, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Harper Creek Community Schools' compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Harper Creek Community Schools' major federal programs for the year ended June 30, 2023. Harper Creek Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Harper Creek Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under these standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Harper Creek Community Schools and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Harper Creek Community Schools' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Harper Creek Community Schools' federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Harper Creek Community Schools' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Harper Creek Community Schools' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Harper Creek Community Schools' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Harper Creek Community Schools' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Harper Creek Community Schools' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harper Creek Community Schools as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise Harper Creek Community Schools' basic financial statements. We issued our report thereon dated September 30, 2023, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 30, 2023

Harper Creek Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal ALN</u>	<u>Pass-through Grantor's Number</u>	<u>Award/Grant Entitlement Program Amount</u>	<u>Accrued (Unearned) Revenue 7/1/2022</u>	<u>Prior Years Expenditures (Memorandum Only)</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued (Unearned) Revenue 6/30/2023</u>
U.S. Department of Agriculture:								
Child Nutrition Cluster:								
Passed through Michigan Department of Education:								
Non-cash Assistance (Commodities):								
National School Lunch Program - Regular	10.555		\$ 112,133	\$ -	\$ -	\$ 112,133	\$ 112,133	\$ -
National School Lunch Program - Bonus	10.555		15,175	-	-	15,175	15,175	-
			<u>127,308</u>	<u>-</u>	<u>-</u>	<u>127,308</u>	<u>127,308</u>	<u>-</u>
Cash Assistance:								
COVID-19 National School Lunch Program	10.555	220910	111,439	(55,240)	-	56,199	111,439	-
COVID-19 National School Lunch Program	10.555	221960	103,426	-	-	103,426	103,426	-
COVID-19 National School Lunch Program	10.555	230910	30,860	-	-	30,860	30,860	-
COVID-19 National School Lunch Program	10.555	221961	1,039,343	5,844	1,039,343	5,844	-	-
National School Lunch Program	10.555	231960	599,745	-	-	593,074	599,745	6,671
			<u>2,056,330</u>	<u>(49,396)</u>	<u>1,039,343</u>	<u>789,403</u>	<u>845,470</u>	<u>6,671</u>
Total National School Lunch Program			<u>2,183,638</u>	<u>(49,396)</u>	<u>1,039,343</u>	<u>916,711</u>	<u>972,778</u>	<u>6,671</u>
COVID-19 School Breakfast Program	10.553	221970	34,663	-	-	34,663	34,663	-
COVID-19 School Breakfast Program	10.553	221971	303,301	3,793	299,508	3,793	-	-
School Breakfast Program	10.553	231970	225,477	-	-	225,477	225,477	-
			<u>609,415</u>	<u>3,793</u>	<u>299,508</u>	<u>263,933</u>	<u>260,140</u>	<u>-</u>
Summer Food Service Program	10.559	220904	27,810	27,810	27,810	27,810	-	-
Summer Food Service Program	10.559	220900	68,822	-	-	41,639	68,822	27,183
			<u>96,632</u>	<u>27,810</u>	<u>27,810</u>	<u>69,449</u>	<u>68,822</u>	<u>27,183</u>
Total Cash Assistance			<u>2,762,377</u>	<u>(17,793)</u>	<u>1,366,661</u>	<u>1,122,785</u>	<u>1,174,432</u>	<u>33,854</u>
Total Child Nutrition Cluster			<u>2,889,685</u>	<u>(17,793)</u>	<u>1,366,661</u>	<u>1,250,093</u>	<u>1,301,740</u>	<u>33,854</u>
Child and Adult Care Food Program	10.558	221920	55,822	-	46,383	9,439	9,439	-
Child and Adult Care Food Program	10.558	222010	4,162	165	3,460	702	537	-
Child and Adult Care Food Program	10.558	231920	62,864	-	-	62,864	62,864	-
Child and Adult Care Food Program	10.558	232010	4,680	-	-	4,680	4,680	-
			<u>127,528</u>	<u>165</u>	<u>49,843</u>	<u>77,685</u>	<u>77,520</u>	<u>-</u>
COVID-19 Pandemic EBT Local Level Costs	10.649	220980-2022	3,135	-	-	3,135	3,135	-
			<u>3,135</u>	<u>-</u>	<u>-</u>	<u>3,135</u>	<u>3,135</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>3,020,348</u>	<u>(17,628)</u>	<u>1,416,504</u>	<u>1,330,913</u>	<u>1,382,395</u>	<u>33,854</u>

Harper Creek Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/ Program Title	Federal ALN	Pass-through Grantor's Number	Award/Grant Entitlement Program Amount	Accrued (Unearned) Revenue 7/1/2022	Prior Years Expenditures (Memorandum Only)	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue 6/30/2023
U.S. Department of Education:								
Passed through Michigan Department of Education:								
Title I Grants to Local Educational Agencies	84.010	221530-2122	432,454	108,294	348,294	116,012	7,718	-
Title I Grants to Local Educational Agencies	84.010	231530-2223	364,898	-	-	312,769	329,683	16,914
			<u>797,352</u>	<u>108,294</u>	<u>348,294</u>	<u>428,781</u>	<u>337,401</u>	<u>16,914</u>
Supporting Effective Instruction State Grants	84.367	220520-2122	128,216	4,890	46,890	39,273	34,383	-
Supporting Effective Instruction State Grants	84.367	230520-2223	102,857	-	-	56,000	46,520	(9,480)
			<u>231,073</u>	<u>4,890</u>	<u>46,890</u>	<u>95,273</u>	<u>80,903</u>	<u>(9,480)</u>
English Language Acquisition	84.365	220570-2122	4,281	2,693	3,490	3,399	706	-
English Language Acquisition	84.365	230570-2223	2,038	-	-	1,412	2,038	626
			<u>6,319</u>	<u>2,693</u>	<u>3,490</u>	<u>4,811</u>	<u>2,744</u>	<u>626</u>
Student Support and Academic Enrichment	84.424A	220750-2122	45,549	4,942	13,942	6,576	1,634	-
Student Support and Academic Enrichment	84.424A	230750-2223	45,836	-	-	34,829	34,955	126
			<u>91,385</u>	<u>4,942</u>	<u>13,942</u>	<u>41,405</u>	<u>36,589</u>	<u>126</u>
Education Stabilization Fund:								
COVID-19 Elementary and Secondary School Relief Fund (ESSER III Equalization)								
COVID-19 Elementary and Secondary School	84.425U	213723-2122	490,491	25,253	25,253	126,942	142,853	41,164
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER II Formula Funds)								
COVID-19 Elementary and Secondary School	84.425D	213712-2021	1,119,115	169,115	1,119,115	169,115	-	-
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER III Formula Funds)								
COVID-19 Elementary and Secondary School (98c)	84.425U	213713-2122	2,515,161	483,697	883,697	1,518,773	1,095,733	60,657
COVID-19 Elementary and Secondary School Elementary and Secondary School Emergency Relief Fund								
COVID-19 Elementary and Secondary School	84.425U	213782-2223	140,184	-	-	-	61,674	61,674
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER II Summer Programming K-8)								
COVID-19 Elementary and Secondary School	84.425D	213722-2122	242,550	242,550	242,550	242,550	-	-
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER II Credit Recovery 9-12)								
COVID-19 Elementary and Secondary School	84.425D	213742-2122	73,700	54,139	54,139	54,139	10,131	10,131
			<u>4,581,201</u>	<u>974,754</u>	<u>2,324,754</u>	<u>2,111,519</u>	<u>1,310,391</u>	<u>173,626</u>
Total passed through Michigan Department of Education			<u>5,707,330</u>	<u>1,095,573</u>	<u>2,737,370</u>	<u>2,681,789</u>	<u>1,768,028</u>	<u>181,812</u>
Passed through Lakeview School District:								
English Language Acquisition	84.365	2021-2022	9,880	4,546	-	4,546	-	-
English Language Acquisition	84.365	2022-2023	8,537	-	-	5,597	5,597	-
			<u>18,417</u>	<u>4,546</u>	<u>-</u>	<u>10,143</u>	<u>5,597</u>	<u>-</u>
Total English Language Acquisition (ALN 84.365)			<u>24,736</u>	<u>7,239</u>	<u>3,490</u>	<u>14,954</u>	<u>8,341</u>	<u>626</u>
Total U.S. Department of Education			<u>5,725,747</u>	<u>1,100,119</u>	<u>2,737,370</u>	<u>2,691,932</u>	<u>1,773,625</u>	<u>181,812</u>
			<u>\$ 8,746,095</u>	<u>\$ 1,082,491</u>	<u>\$ 4,153,874</u>	<u>\$ 4,022,845</u>	<u>\$ 3,156,020</u>	<u>\$ 215,666</u>

Harper Creek Community Schools
Schedule of Reconciliation of Revenues with
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

	<u>Amount</u>
Revenue from federal sources - per financial statements (includes all funds)	\$ 3,525,950
Less: Federal assistance received as a beneficiary	<u>369,930</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 3,156,020</u>

Harper Creek Community Schools
Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Harper Creek Community Schools (the "District") under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenue is recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue, and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports with any reconciling items. The amounts on the Grant Auditor Report reconcile with this Schedule. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this Schedule for USDA donated food commodities and the expenditures include any spoilage or pilferage.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by Section 200.414 of the Uniform Guidance.

Note 3 – Subrecipients

No federal awards were passed through the District to any subrecipients during the year.

Harper Creek Community Schools
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2023

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified	_____ yes <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted	_____ yes <u> X </u> no

Federal Awards

Internal control over major programs:	
Material weakness identified	_____ yes <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported

Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	_____ yes <u> X </u> no

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program</u>
84.425	Education Stabilization Fund
10.553/10.555/10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$ 750,000 </u>
Auditee qualified as low-risk	_____ yes <u> X </u> no

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

Harper Creek Community Schools
Comments on Resolution of Findings from June 30, 2022
Single Audit Report

Financial Statement Findings

2022-001 – Budget Overage

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP) and implement adequate controls over financial reporting including the budget.

Condition: As noted in the supplementary information of the audit report, there were several functions where expenditures exceeded the budget.

Cause and Effect: There was a transition in the business manager role and in the transition the budget process was still being established.

Recommendation: We recommend management review control procedures in these areas to determine appropriate steps to improve and tighten control.

Views of Responsible Officials and Planned Corrective Action: We will be reviewing our budgeting procedure to ensure adequate budget amounts are approved to allow for year-end adjustments. This update is expected to be completed by June 30, 2023.

Status: This finding has been corrected.

Federal Award Findings and Questioned Costs

None reported



WILLIS & JURASEK

CPAS AND CONSULTANTS

September 30, 2023

To the Board of Education
Harper Creek Community Schools
Battle Creek, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harper Creek Community Schools for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Harper Creek Community Schools are described in Note 1 to the financial statements. As described in note 12 to the financial statements, the District adopted Statement of Governmental Accounting Standards Board (GASB Statement) No. 96, *Subscription-Based Information Technology Arrangements*. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the government-wide financial statements were:

Management has estimated the value of capitalized assets and the related accumulated depreciation. The bulk of the capitalized costs is based upon an asset appraisal done in a prior year. Related depreciation is based upon estimated usage using estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements contain estimates for net pension and OPEB liabilities and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPSERS pension/OPEB system. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Management has also estimated the liability for compensated absences. We have evaluated the key factors and assumptions used to develop the liability for compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as per the auditors' report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Budgetary Comparison Schedule, the Schedule of the District's Proportionate Share of the Net Pension/OPEB Liability of the MPSERS Plan, and the Schedule of the District's Contributions to the MPSERS Pension/OPEB Plan and related notes which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statements of nonmajor governmental funds which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Comments and Recommendations

- The Food Service Fund has a fund balance in excess of the allowable threshold. We recommend the District continue to work with MDE on a spend down plan of these funds to bring the fund balance back into compliance.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Harper Creek Community Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.